

Internal Revenue Service, Treasury

§ 54.4972-1

Section 54.9801-4T also issued under 26
U.S.C. 9833.

Section 54.9801-5T also issued under 26
U.S.C. 9801(c)(4), 9801(e)(3), and 9833.

Section 54.9801-6T also issued under 26
U.S.C. 9833.

Section 54.9802-1T also issued under 26
U.S.C. 9833.

Section 54.9811-1T also issued under 26
U.S.C. 9833.

Section 54.9812-1T also issued under 26
U.S.C. 9833.

Section 54.9831-1T also issued under 26
U.S.C. 9833.

Section 54.9833-1T also issued under 26
U.S.C. 9833.

**§ 54.4971-1 General rules relating to
excise tax on failure to meet min-
imum funding standards.**

(a)-(b) [Reserved]

(c) *Additional tax.* Section 4971(b) im-
poses an excise tax in any case in
which an initial tax is imposed under
section 4971(a) on an accumulated fund-
ing deficiency and the accumulated
funding deficiency is not corrected
within the taxable period (as defined in
section 4971(c)(3)). The additional tax is
100 percent of the accumulated funding
deficiency to the extent not corrected.

(d) [Reserved]

(e) *Definition of taxable period*—(1) *In
general.* For purposes of any accumu-
lated funding deficiency, the term
“taxable period” means the period be-
ginning with the end of the plan year
in which there is an accumulated fund-
ing deficiency and ending on the ear-
lier of:

(i) The date of mailing of a notice of
deficiency under section 6212 with re-
spect to the tax imposed by section
4971(a), or

(ii) The date on which the tax im-
posed by section 4971(a) is assessed.

(2) *Special rule.* Where a notice of defi-
ciency referred to in paragraph (e)(1)(i)
of this section is not mailed because a
waiver of the restrictions on assess-
ment and collection of a deficiency has
been accepted or because the deficiency
is paid, the date of filing of the waiver
or the date of such payment, respec-
tively, shall be treated as the end of
the taxable period.

[T.D. 8084, 51 FR 16305, May 2, 1986]

**§ 54.4972-1 Tax on excess contribu-
tions to plans benefiting self-em-
ployed individuals.**

(a) *In general.* Section 4972 imposes a
tax of 6 percent on the amount of the
excess contributions (as defined in sec-
tion 4972 (b) and (c) of this section)
under certain qualified plans (as de-
fined in paragraph (b) of this section)
for each taxable year beginning after
December 31, 1975, of the employer who
maintains such plan. Partnerships and
sole proprietors are to report this tax
by filing Form 5330 (or other des-
ignated form) and the tax is to be paid
annually at the time prescribed for fil-
ing such return (determined without
regard to any extension of time for fil-
ing).

(b) *Employers to whom section applies.*
The tax under section 4972 is imposed
on employers who maintain a qualified
plan during their taxable year. For this
purpose, the term *qualified plan* means
a pension or profit-sharing plan which
includes a trust described in section
401(a), an annuity plan described in sec-
tion 403(a), or a bond purchase plan de-
scribed in section 405(a). In addition to
being a qualified plan, the plan must
provide contributions or benefits for
employees some or all of whom are em-
ployees within the meaning of section
401(c)(1). For this purpose, the plan
does not have to provide contributions
or benefits for employees who are em-
ployees within the meaning of section
401(c)(1) during the taxable year; it is
sufficient that the plan so provided in
a prior taxable year.

(c) *Excess contributions*—(1) *In general.*
For a taxable year of an employer for
purposes of section 4972 and this sec-
tion, the term “excess contributions”
means:

(i) The amount (if any) by which the
sum of:

(A) The amount (if any) determined
under section 4972(b)(2) and paragraph
(d) of this section, plus

(B) The amount (if any) determined
under section 4972(b)(3) and paragraph
(e) of this section, plus

(C) The amount (if any) determined
under section 4972(b)(4) and paragraph
(f) of this section, exceeds

(ii) The amount (if any) of any cor-
recting distributions (as defined in sec-
tion 4972(b)(5) and paragraph (g) of this

section) made in all prior taxable years beginning after December 31, 1975.

(2) *Contributions allocable to insurance.* For purposes of section 4972(b) and this section, the amount of any contribution made under the plan which is allocable to the purchase of life, accident, health, or other insurance is not taken into account. The amount of any contribution which is allocable to the cost of insurance protection is determined in accordance with the provisions of paragraph (g) of § 1.404(e)-1A and paragraph (b) of § 1.72-16.

(d) *Contributions by owner-employees—*

(1) *General rule.* In the case of a plan which provides contributions or benefits for employees some or all of whom are owner-employees, within the meaning of section 401(c)(3), the amount determined under section 4972(b)(2) and this paragraph for the employer's taxable year is the amount computed separately with respect to each owner-employee equal to the sum of:

(i) The excess (if any) of

(A) The amount contributed under the plan by each owner-employee as an employee (that is, each owner-employee's contributions within the meaning of section 401(c)(5)(B)) for such taxable year of the employer, over

(B) The amount permitted under section 4972(c) and paragraph (h) of this section to be contributed by each owner-employee as an employee for such taxable year of the employer, and

(ii) The amount determined under section 4972(b)(2) and this paragraph for the immediately preceding taxable year of the employer, reduced by the excess (if any) of the amount described in subdivision (1)(B) of this subparagraph over the amount described in subdivision (1)(A) of this subparagraph for such taxable year of the employer.

(2) *Rollover amounts.* The provisions of section 4972 (c) and paragraph (d) of this section are not applicable to amounts contributed on behalf of an owner-employee in a rollover contribution described in section 402(a)(5), 403(a)(4), 408(d)(3), or 409(b)(3)(C).

(3) *Examples.* The provisions of this paragraph may be illustrated by the following examples:

Example (1). (i) A and B are the only owner-employees covered under the X Employees' Trust. The X Partnership, the X Trust, and

the X Plan all use the calendar year as their annual accounting period, at all relevant times. The amount determined under section 4972(b)(2) for 1975 is 0 because this section does not apply to contributions made for taxable years beginning before January 1, 1976. In calendar year 1976, A contributes \$2,500 and B contributes \$2,500 to the trust. The amount permitted to be contributed to the trust for 1976 with respect to A as an employee is \$1,800 and with respect to B as an employee is \$2,200.

(ii) The amount determined under this paragraph for 1976 with respect to A is \$700, computed as follows: the sum of the excess of the amount contributed by A (\$2,500) over the amount permitted to be contributed by A (\$1,800), and the amount determined under this paragraph for A in 1975 (0).

(iii) The amount determined under this paragraph for 1976 with respect to B is \$300, computed as follows: the sum of the excess of the amount contributed by B (\$2,500) over the amount permitted to be contributed by B (\$2,200), and the amount determined under this paragraph for B in 1975 (0).

(iv) The amount determined under section 4972(b)(2) and this paragraph for 1976 with respect to the employer, X Partnership, is \$1,000, the sum of the amounts determined separately under this paragraph with respect to A (\$700) and B (\$300). The tax under section 4972 for 1976 on the X Partnership (assuming that no other events affecting the determination of the tax under section 4972 occur) is 6 percent of \$1,000 or \$60.

Example (2). (i) Assume the facts stated in Example (1). In calendar year 1977, A contributes \$1,500 and B contributes \$2,300 to the trust. Assume that the amount permitted to be contributed to the trust for 1977, under section 4972(c) for A and B is \$2,500 each.

(ii) The amount determined under this paragraph for 1977 with respect to A is 0, computed as follows: the sum of 0 (the excess of the amount contributed by A (\$1,500) over the amount permitted to be contributed (\$2,500)) and \$700, the amount determined under this paragraph for A in 1976, reduced by \$1,000 (the amount permitted to be contributed by A (\$2,500) over the amount contributed by A (\$1,500)).

(iii) The amount determined under this paragraph for 1977 with respect to B is \$100, computed as follows: the sum of 0 (the excess of the amount contributed by B (\$2,300) over the amount permitted to be contributed (\$2,500)) and \$300, the amount determined under this paragraph for B in 1976, reduced by \$200 (the amount permitted to be contributed (\$2,500) by B over the amount contributed by B (\$2,300)).

(iv) The amount determined under section 4972(b) and this paragraph for 1977 with respect to the employer, X Partnership, is \$100, the sum of the amounts determined separately under this paragraph with respect to

A (\$0) and B (\$100). The tax imposed under section 4972 for 1977 on the X Partnership (assuming that no other events affecting the determination of the tax under section 4972 occur) is 6 percent of \$100, or \$6.

(e) *Defined benefit plans*—(1) *General rule.* In the case of a defined benefit plan (as defined in section 414(j)), the amount determined under section 4972(b)(3) and this paragraph for the taxable year of the employer is the amount contributed under the plan by the employer during the taxable year plus the amounts, if any, contributed by the employer during any prior taxable year beginning after December 31, 1975, if:

(i) As of the close of the taxable year, the full funding limitation of the plan (determined under section 412(c)(7) and the regulations thereunder) is zero, and

(ii) Such amounts contributed have not been deductible by the employer for the taxable year or for any prior taxable year beginning after December 31, 1975.

See section 404 and the regulations thereunder for the determination of the amount deductible by the employer for the taxable year. If the amounts contributed by the employer exceed the amounts which have been deductible, the amount determined under this paragraph shall not exceed the amounts which have not been deductible. For purposes of this paragraph, the determination of both the amounts contributed and the amounts deductible by the employer for any relevant taxable year includes amounts contributed and deductible on behalf of any employee covered under the plan, including common-law employees and other self-employed individuals who are not owner-employees in addition to owner-employees. The determination of whether the full funding limitation is zero shall be made taking into account all the plan assets unreduced by any deduction carryover under section 404(a)(1)(D). The determination of whether the full funding limitation is zero as of the close of the employer's taxable year shall be made with respect to the plan year ending with or within the employer's taxable year. Consequently, if an employer whose taxable year is the calendar year establishes and maintains a defined benefit

plan whose plan year begins on July 1 and ends on June 30, the full funding limitation for that plan will be determined with respect to the plan year ending on June 30 within the calendar taxable year including that June 30.

(2) *Illustration.* The provisions of this paragraph may be illustrated by the following example:

Example. (i) X Partnership ("X") adopts the Y Defined Benefit Plan ("Y Plan") on January 1, 1977. The taxable year of X is the calendar year. The Y Plan also has a calendar plan year. For 1977, \$25,000 is contributed to the Y Plan by X. Assume that for 1977, (1) only \$10,000 is deductible by X for 1977 under section 404 and (2) the full funding limitation of the Y Plan (determined under section 412(c)(7)) on December 31, 1977, is greater than zero. For 1978, X makes no additional contributions to the Y Plan. Assume that for 1978, (1) no amount is deductible by X under section 404 and (2) the full funding limitation of the Y Plan (determined under section 412(c)(7)) on December 31, 1978, is zero. The amount determined under section 4972(b)(3) and this paragraph for the 1978 taxable year is \$15,000, computed as follows: the difference between (A) the sum of the amounts contributed by X for taxable year 1978 (0), and the amounts contributed by X for taxable year 1977 (\$25,000) and (B) the sum of the amount deductible for taxable year 1978 (0) and the amount deductible for taxable year 1977 (\$10,000). The tax imposed under section 4972 for 1978 on X (assuming that no other events affecting the determination of the tax under section 4972 occur) is 6 percent of \$15,000 or \$900.

(ii) For 1979, X makes no additional contributions to the Y Plan. Assume that for 1979, (1) the full funding limitation of the Y Plan determined under section 412(c)(7) is greater than zero. Assume further that \$10,000 of the amounts contributed for 1977 is deductible by X for 1979 under section 404. There is no amount determined under section 4972(b)(3) and this paragraph for 1979 because the condition described in subparagraph (i)(i) of this paragraph is not satisfied.

(iii) For 1980, X makes no additional contributions to the Y Plan. Assume that for 1980, (1) no amount is deductible under section 404 and (2) the full funding limitation of the Y Plan (determined under section 412(c)(7)) on December 31, 1980, is zero. The amount determined under section 4972(b)(3) and this paragraph for the 1980 taxable year is \$5,000, computed as follows: the difference between (A) \$25,000, the sum of the amounts contributed by X for taxable years 1980 (0), 1979 (0), 1978 (0), and 1977 (\$25,000) and (B) \$20,000, the sum of the amounts deductible for taxable years 1980 (0), 1979 (\$10,000), 1978 (0), and 1977 (\$10,000). The tax imposed under

section 4972 for 1980 on X (assuming that no other events affecting the determination of the tax under section 4972 occur) is 6 percent of \$5,000, or \$300.

(f) *Defined contribution plans*—(1) *General rule.* In the case of a defined contribution plan (as defined in section 414(i)), the amount determined under section 4972(b)(4) and this paragraph for the taxable year of the employer is equal to the portion of the amounts contributed under the plan by the employer during the taxable year plus the amounts contributed by the employer during any prior taxable year beginning after December 31, 1975, which has not been deductible by the employer for the taxable year or for any such prior taxable year. For purposes of this paragraph, the determination of both the amounts contributed and the amounts deductible by the employer for any relevant taxable year includes amounts contributed and deductible on behalf of any employee covered under the plan, including common-law employees and other self-employed individuals who are not owner-employees in addition to owner-employees.

(2) *Illustration.* The provisions of this paragraph may be illustrated by the following example:

Example. (i) The X Partnership (“X”) adopts the Z Defined Contribution Plan and Trust (“Z Plan”) on January 1, 1976. X’s taxable year and the plan year of Z Plan are both calendar years. For 1976, X contributes \$40,000, of which \$30,000 is deductible under section 404 for taxable year 1976. The amount determined under section 4972(b)(4) and this paragraph for 1976 is \$10,000 (the difference between (A) \$40,000, the amount contributed by X for taxable year 1976 and (B) \$30,000, the amount deductible for taxable year 1976).

(ii) For 1977, X contributes \$25,000, and the amounts deductible by X under section 404 for taxable year 1977 is \$30,000 (\$5,000 for the contribution carryover from 1976 and \$25,000 with respect to the 1977 contribution). The amount determined under section 4972(b)(4) and this paragraph for 1977 is \$5,000, computed as follows: the difference between (A) \$65,000, the sum of the amounts contributed by X for taxable year 1976 (\$40,000) and the amounts contributed by X for taxable year 1977 (\$25,000), and (B) \$60,000, the sum of the amounts deductible for taxable year 1976 (\$30,000) and the amounts deductible for taxable year 1977 (\$30,000).

(g) *Correcting distribution*—(1) *General rule.* For purposes of section 4972(b) and

this paragraph, the term “correcting distribution” means, for the taxable year of the employer, the sum of:

(i) In the case of a contribution made as an employee by an owner-employee, within the meaning of section 401(c)(3), to a defined benefit or defined contribution plan, the amount, or any part thereof, determined under section 4972(b)(2) and paragraph (d) of this section which is distributed to the owner-employee who contributed such amount to the plan;

(ii) In the case of a defined benefit plan, the amount, or any part thereof, determined under section 4972(b)(3) and paragraph (e) of this section which is distributed from the plan to the employer, and

(iii) In the case of a defined contribution plan, the amount, or any part thereof, determined under section 4972(b)(4) and paragraph (f) of this section which is distributed to (A) the employer or (B) to the employee for whom such amount was contributed.

If, for any employer taxable year in which a defined contribution plan is maintained, there is a correcting distribution to an employee which could be from amounts described in subparagraph (1)(i) and (iii) of this paragraph for such employee, then such correcting distribution shall be deemed to be made first from amounts described in such subparagraph (1)(i) and then from amounts described in such subparagraph (1)(iii) for purposes of this section and section 72. For the income tax treatment of such distributions to employees, see section 72 and the regulations thereunder. Any such distributions to employees shall not be subject to the tax imposed by section 4975 nor result in the defined contribution plan failing to satisfy the exclusive benefit requirement of section 401(a), solely by reason of being a correcting distribution within the meaning of this paragraph. If, for any employer taxable year in which a defined benefit, or defined contribution plan is maintained, there is a correcting distribution described in subparagraph (1)(ii) or (iii) of this paragraph to the employer maintaining the plan, such distribution shall not be subject to the tax imposed by section 4975 nor result in the plan’s failing to satisfy the exclusive benefit

or the definitely determinable requirements under section 401(a). If, for any employer taxable year in which a money purchase pension plan is maintained, a correcting distribution described in subparagraph (1)(iii) of this paragraph is made to an employee who has not yet become eligible to receive retirement benefits under the plan, the qualification of the pension plan (and trust) under section 401(a) may be adversely affected. See § 1.401-1(b)(1)(i). A correcting distribution described in subparagraph (1)(iii) of this paragraph to an owner-employee prior to age 59½ must be precluded under the plan. See section 401(d)(4)(B).

(2) *Illustration.* The provisions of this paragraph may be illustrated by the following example:

Example. (i) A and B are owner-employees who are over the age of 59½ and who are covered under the X Employees' Defined Contribution Plan and Profit-Sharing Trust ("Plan Y"). The X Partnership ("X") and Plan Y are on calendar years. In calendar year 1976, A contributes \$2,500 and B contributes \$2,500 to Plan Y. The amount permitted to be contributed to Plan Y for 1976 with respect to A as an employee is \$1,800 and with respect to B as an employee is \$2,200. X contributes to Plan Y \$5,000 on behalf of A and \$5,000 on behalf of B. Of this amount, assume that \$2,700 is deductible with respect to A and \$3,300 is deductible with respect to B by X under section 404. The amount determined under section 4972(b)(2) and paragraph (d) of this section (the excess owner-employee contributions made by A and B to Plan Y) for taxable year 1976 is \$1,000, computed as follows: the sum of (A) for A, \$700, the difference between his own contributions (\$2,500) and the amount permitted to be contributed by A (\$1,800) and (B) for B, \$300, the difference between his own contributions (\$2,500) and the amount permitted to be contributed by B (\$2,200). The amount determined under section 4972(b)(4) and paragraph (f) of this section (the excess contributions made by X to Plan Y) for taxable year 1976 is \$4,000, computed as follows: the sum of (A) by X for A, \$2,300, the difference between contributions by X (\$5,000) and the amount deductible by X for A (\$2,700) and (B) by X for B, \$1,700, the difference between contributions by X for B (\$5,000) and the amount deductible by X for B (\$3,300). During 1976, there is no correcting distribution, within the meaning of section 4972 and this paragraph, because there are no distributions to A, B, or X.

(ii) Assume that, for taxable year 1977, the amounts determined under sections 4972(b)(2) and 4972(b)(4) remain the same as for taxable

year 1976, that is, \$1,000 (\$700 for A and \$300 for B) and \$4,000 (\$2,300 by X for A and \$1,700 by X for B), respectively. Assume further that, in 1977, Plan Y distributes \$3,000 to A and \$1,000 to B. The amount determined under section 4972(b)(5) and this paragraph (the correcting distribution for Plan Y) for taxable year 1977 is \$4,000, computed and attributed as follows: the sum of (A) \$3,000 with respect to A, the amount of the distribution to A applied first to A's \$700 amount described in subparagraph (1)(i) of this paragraph and next to A's \$2,300 amount described in subparagraph (1)(iii) of this paragraph and (B) \$1,000 with respect to B, the amount of the distribution to B applied first to B's \$300 amount described in subparagraph (1)(i) of this paragraph and next to B's \$1,700 amount described in subparagraph (1)(iii) of this paragraph. For purposes of computing the excess contributions for taxable year 1977, the correcting distribution of \$4,000 would not be taken into account because only correcting distributions for prior year are considered. However, for taxable year 1978 the correcting distribution of \$4,000 would be taken into account.

(iii) Assume that, for taxable year 1978, there are no additional amounts determined under sections 4972(b)(2) and 4972(b)(4) and that Plan Y distributes \$900 to B. The amount determined under section 4972(b)(5) and this paragraph (the correcting distribution for Plan Y) for the 1978 taxable year is \$900, computed and attributed as follows: the amount of the distribution to B, \$900, applied to B's \$1,000 amount described in subparagraph (1)(iii) of this paragraph. For purposes of computing the excess contributions for taxable year 1978, the correcting distribution of \$900 would not be taken into account. However, for taxable year 1979, the correcting distribution of \$900 would be taken into account.

(h) *Amount permitted to be contributed by owner-employee—(1) General rule.* Except as provided in subparagraph (2), for purposes of section 4972(b)(2) and paragraph (d), the amount permitted to be contributed under a plan by an owner-employee as an employee for any taxable year of the employer is the smallest of the following:

- (i) \$2,500;
- (ii) 10 percent of the earned income (as defined in section 401(c)(2)) for such taxable year derived by the owner-employee from the trade or business with respect to which the plan is established, or
- (iii) The amount of the contribution which would be contributed by the owner-employee (as an employee) if such contribution were made at the

rate of contributions which is permitted to be made by employees who are not owner-employees during such taxable year.

(2) *Special rule.* In the case of a taxable year of the employer in which there are no employees other than owner-employees, the amount permitted to be contributed under a plan by an owner-employee (as an employee) is zero.

(i) *Special rules and cross references—*

(1) *Time of contributions.* For purposes of this section, time of employer contributions made with respect to any taxable year shall take into account the rules specified in section 404(a)(6), relating to time when contributions deemed made.

(2) *Disallowance of deduction.* For disallowance of deduction for taxes paid under this section, see section 275(a)(6).

(3) *Certain annuity contracts.* For a special rule relating to owner-employee contributions for premiums on annuity, etc. contracts, see § 1.401(e)4(a).

(4) *Disqualification for excess contributions.* For plan qualification requirements relating to excess contributions, see section 401(d)(5).

[T.D. 7759, 46 FR 6932, Jan. 22, 1981]

§ 54.4974-1 Excise tax on accumulations in individual retirement accounts or annuities.

(a) *General rule.* A tax equal to 50 percent of the amount by which the minimum amount required to be distributed from an individual retirement account or annuity described in section 408 during the taxable year of the payee under paragraph (b) of this section exceeds the amount actually distributed during the taxable year is imposed by section 4974 on the payee.

(b) *Minimum amount required to be distributed.* For purposes of this section, the minimum amount required to be distributed is the amount required under § 1.408-2(b)(6)(v) to be distributed in the taxable year described in paragraph (a) of this section.

(c) *Examples.* The application of this section may be illustrated by the following examples.

Example (1). In 1975, the minimum amount required to be distributed under § 1.408-2(b)(6)(v) to A under his individual retirement account is \$100. Only \$60 is actually

distributed to A in 1975. Under section 4974, A would have an excise tax liability of \$20 [50% of (\$100—\$60)].

Example (2). Although no distribution is required under § 1.408-2(b)(6)(v) to be made in 1986, H, a married individual born on February 1, 1921, who has established and maintained an individual retirement account decides to begin receiving distributions from the account beginning in 1986. H's wife, W, was born on March 6, 1921. H and W are calendar year taxpayers. H decides to receive his interest in the account over the joint life and last survivor expectancy of himself and his wife. On January 1, 1986, the balance in H's account is \$10,000; H and W, based on their nearest birthdates, are 65; and the joint life and last survivor expectancy of H and his wife is 22.0 years (see Table II of § 1.72-9). His annual payments during the following years (none of which were required) were determined by dividing the balance in the account on the first day of each year by the joint life and last survivor expectancy reduced by the number of whole years elapsed since the distributions were to commence.

Date	Life expectancy minus whole years elapsed	Account balance at beginning of each year	Annual payment
Jan. 1, 1986	22.0	\$10,000	\$455
Jan. 1, 1987	21.0	10,118	482
Jan. 1, 1988	20.0	10,214	511
Jan. 1, 1989	19.0	10,285	541
Jan. 1, 1990	18.0	10,329	574
Jan. 1, 1991	17.0	10,340	608

For 1986, 1987, 1989, and 1990, the amount required to be distributed under § 1.408-2(b)(6)(v) is zero. Thus, H would have no excise tax liability under section 4974 for these years. In 1991, the year H attains age 70½, the amount required to be distributed from the account under § 1.408-2(b)(6)(v) is \$565, determined by dividing \$10,340 (the account balance as of January 1, 1991) by 18.8 years (the joint life and last survivor expectancy of H and W, assuming they are both still living, as of January 1, 1991). If W should die after December 31, 1990, the joint life and last survivor expectancy determined on January 1, 1991 (18.3 years) would not be redetermined. Because the amount distributed from the account in 1991 (\$608) exceeds the amount required to be distributed from the account in 1991 (\$565), H has no excise tax liability under section 4974 for 1991.

Example (3). Assume the same facts as in example (2) except that W dies in 1988. For 1988, 1989, and 1990, the amount required to be distributed under § 1.408-2(b)(6)(v) is zero. Thus, H would have no excise tax liability under section 4974 for these years. In 1991, the amount required to be distributed under